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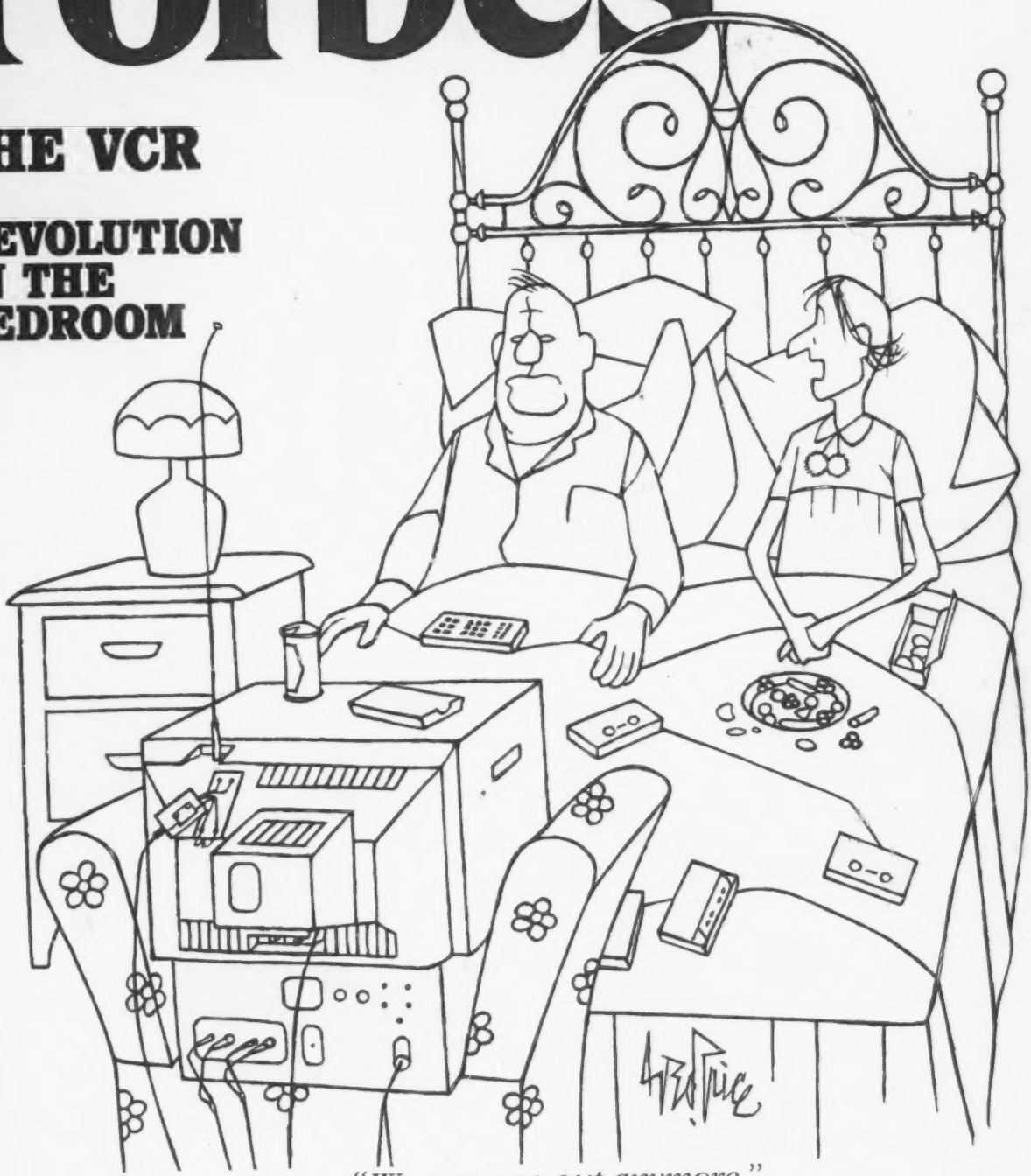
JUNE 17, 1985 THREE DOLLARS

Forbes

THE VCR

REVOLUTION IN THE BEDROOM



"We never go out anymore."

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Forbes

June 17, 1985
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Number 12

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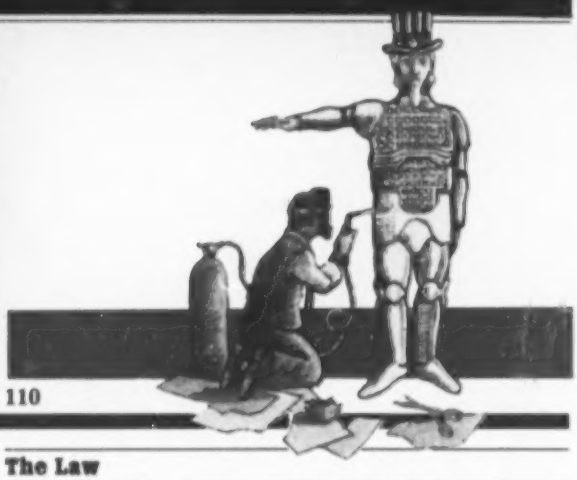

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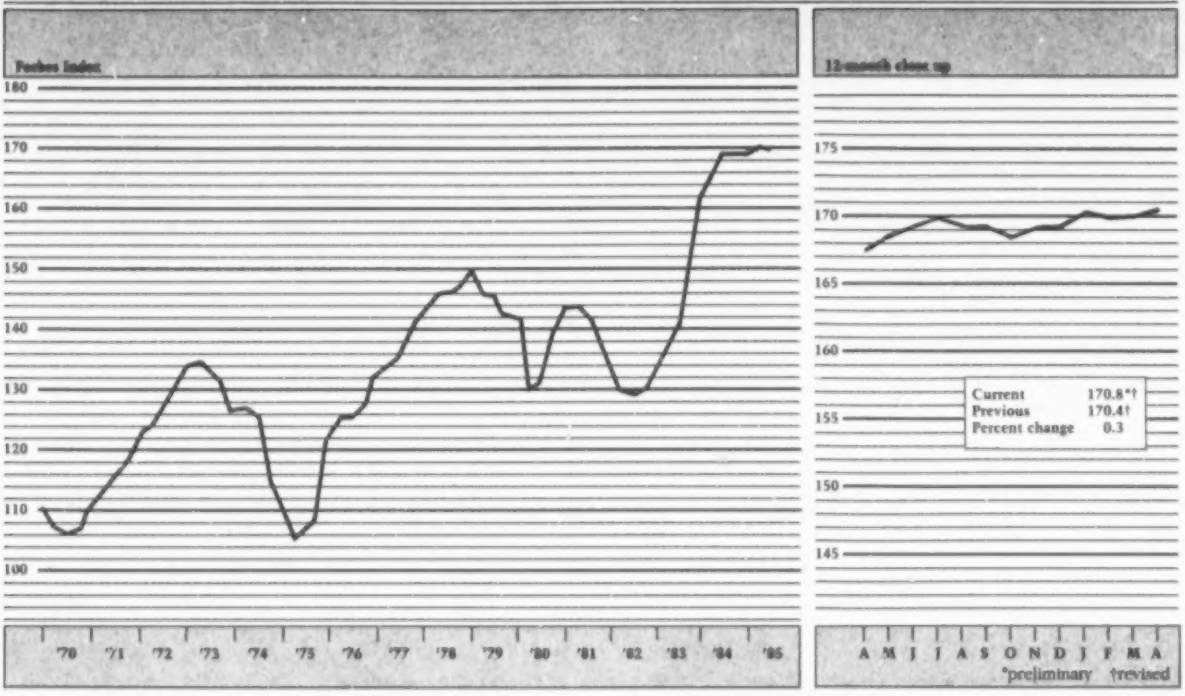
Cover illustration by George Price

The Forbes Index



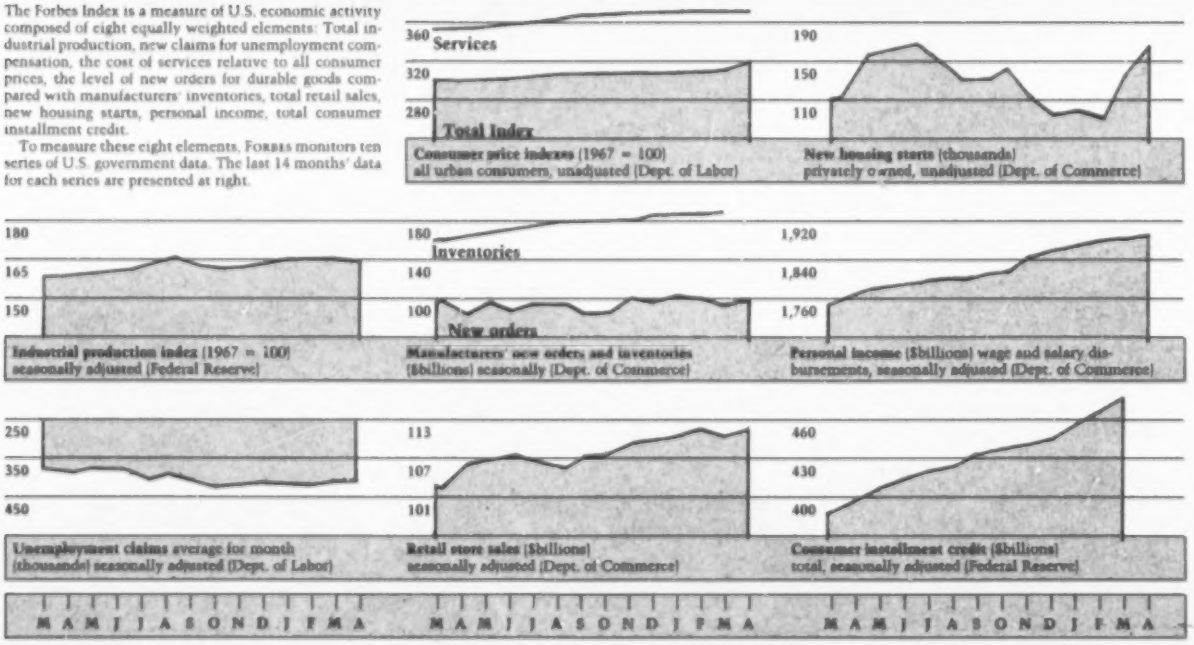
Not ready to quit. With a 0.3% gain, the Forbes Index hit a new high in the latest reporting period. While still some 5.4% below the record level of June 1984, new housing starts continue to recover from the doldrums. They jumped 20.7% over the previous month's figure. Manufacturers' new orders rose 1% from month-earlier figures, while retail sales posted a 0.9% gain.

The CPI rose 0.4% over the previous month, or 4.9% on an annualized basis. One month earlier the CPI was increasing at a 5.3% annual rate. The annual rate for the services component of the CPI is now 3.8%. In contrast, personal income is now growing at a 7.3% annual rate. Finally, industrial production fell 0.2% from the previous month, even though it is up 2% from a year ago.

The Forbes Index Components

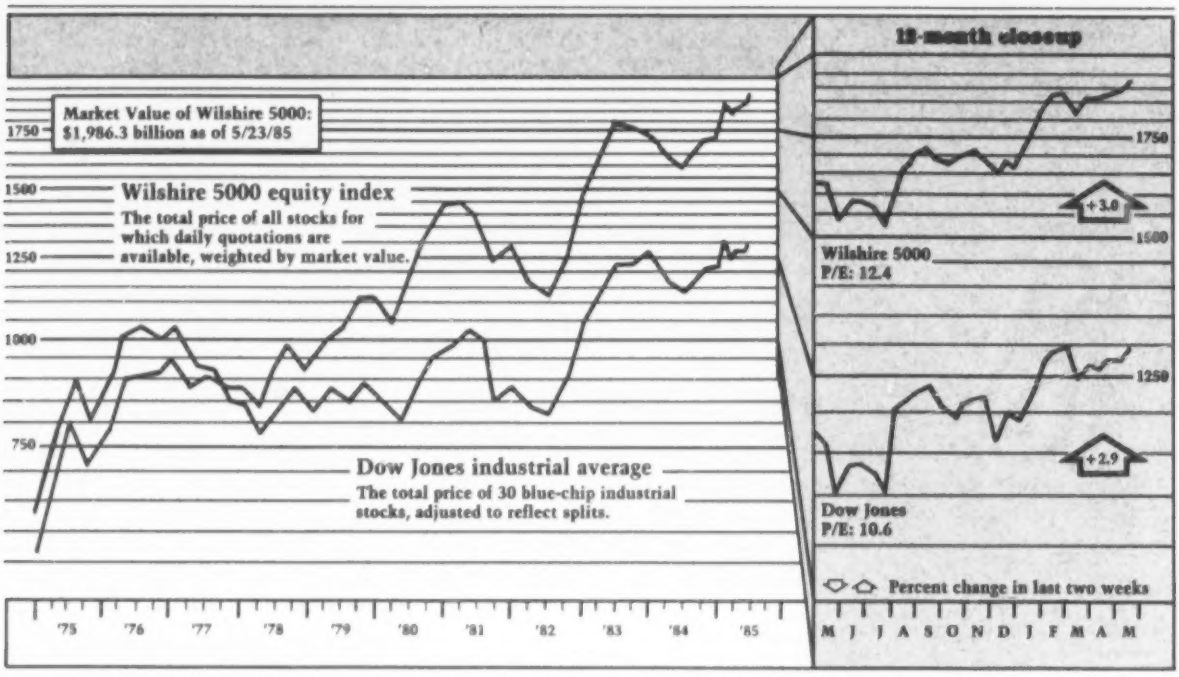
The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, Forbes monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



Excursion into higher altitudes. The Dow industrials managed not only to close above 1300 but also to end the next two trading sessions above it. The broadly based Wilshire index of more than 5,600 securities hit a recent peak one day ahead of the Dow, on May 20. Then the market retreated slightly, but it was nevertheless a good two weeks for many investors. The Dow closed out the stretch at 1296.7, a 2.9% gain, while the Wilshire was up 3%. Nasdaq shares were a bit stronger than the market and gained 3.1%, but Amex issues registered only a 1.2% increase. The investor yardsticks, below, indicate that all types of shares were being bought, but shares with a conservative flavor generally held a slight edge.

Wall Street has fared well over the last year. Over the last 52 weeks the Wilshire, The Forbes Sales 500, NYSE and Nasdaq all managed gains of around 25%. That return comes on top of dividends averaging 4.5%. Amex issues, however, increased by only 15.9%.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	2.4	2.2	0.9	2.2	–0.3	2.9
in last 52 weeks	25.0	25.7	17.5	24.7	15.9	24.1

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	3.3	0.8	1.5	3.4	2.6	2.6	2.3	2.5	1.5	1.7	3.7	0.6
in last 52 weeks	30.0	17.5	21.7	34.7	13.1	34.0	32.6	24.2	17.7	34.7	35.5	5.7

[1]Based on sales.
[2]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

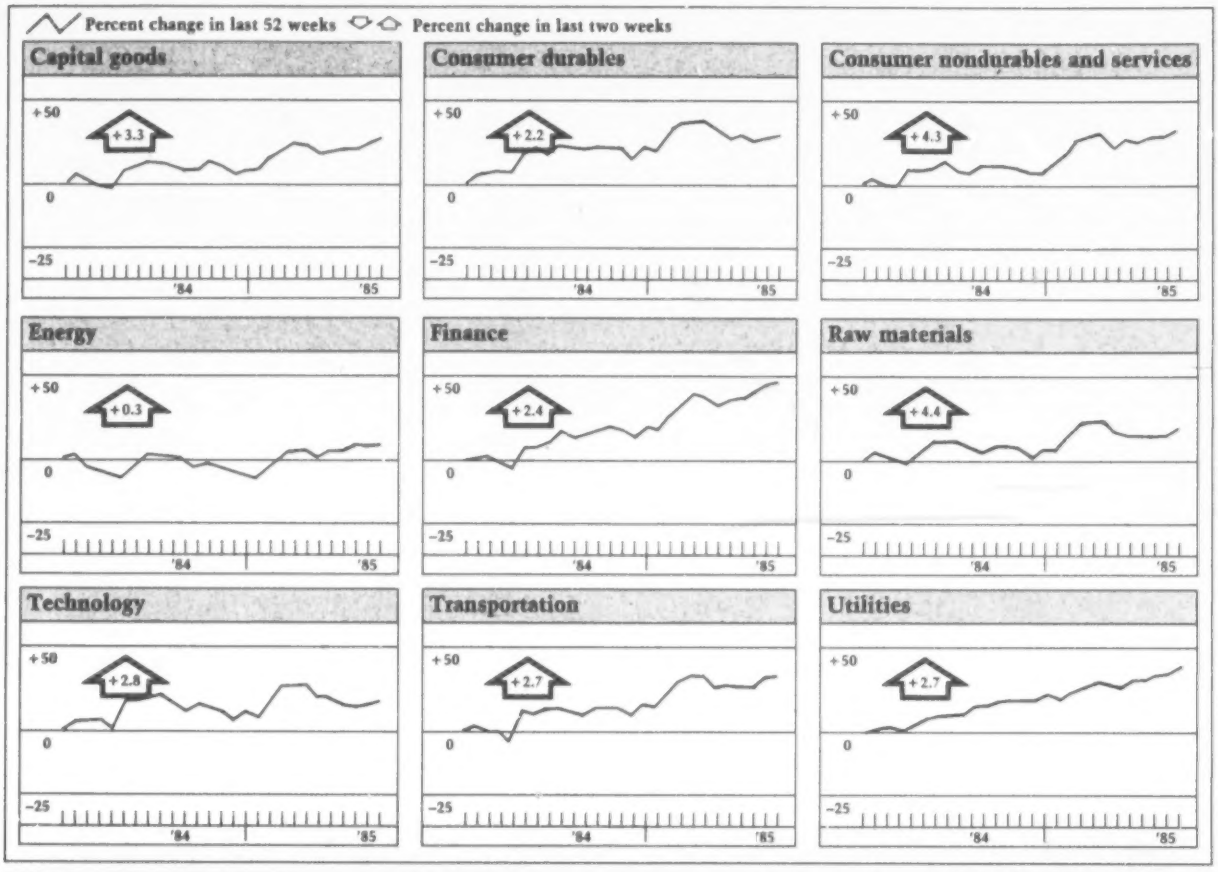
Note: All data for periods ending 5/23/85. Prepared by Wilshire Associates, Santa Monica, Calif.

Kenneth Alcorn

Where The Action Is

Has the oil patch capped the takeover blowout? During the last two weeks all sectors except energy posted fairly impressive gains. Energy shares were another story. With Unocal effectively thwarting a takeover attempt, investors lost interest in the oils as a way to make a fast buck. Energy shares managed only a 0.3% gain.

Meanwhile, consumer nondurables, raw materials and capital goods outperformed the overall market. Consumer nondurables, propelled by Upjohn, rose 4.9%. Finance shares, with a 45.6% gain for the last 52 weeks, have outperformed the Wilshire index over this time span by almost a 2-to-1 margin. The two poorest-performing groups over the last year: technology and energy, with respective gains of 14% and 6.3%.



What The Analysts Think

High time for finance. Finance shares have done well of late. Thank analysts, who in the last two weeks have made enough upward revisions to allow this sector to show a gain in estimated 1985 earnings. But with disappointing GNP growth for the first quarter, it is no surprise estimates were lowered for the eight remaining groups.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$3.65	11.2
1985 estimates	4.21	9.7
1986 estimates	4.75	8.6

Rank based on change in estimate	Sector	Estimated 1985 EPS	Estimated 1985 P/E	% change in 1985 estimate in 2 weeks	% change in 1985 estimate in 4 weeks
1	Finance	$3.30	10.0	0.52%	0.79%
2	Energy	3.51	8.6	-0.10	-0.67
3	Utilities	3.46	8.0	-0.35	-0.71
4	Consumer nondurables	2.57	12.3	-0.49	-0.44
5	Transportation	3.10	9.1	-1.00	-1.51
6	Consumer durables	4.74	7.9	-1.36	-1.71
7	Capital goods	2.91	11.2	-1.52	-2.55
8	Technology	2.84	11.8	-2.02	-3.19
9	Raw materials	2.21	11.1	-3.07	-4.69

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continously by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 5/23/85. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.

MONEY & INVESTMENTS

Reliable weather forecasts months in advance would give fundamentalists a priceless edge in the commodity markets.

WILL IT RAIN IN AUGUST?

By Stanley W. Angrist

Long-range weather forecasting—like the weather itself—seems to be something that everyone likes to talk about but nobody has been able to do much about, at least not with much proficiency. It is clear, as far as commodity traders are concerned, that an accurate long-range forecast would be worth its weight in Prince tickets.

Paul Handler, a physics professor at the University of Illinois, believes that he has come up with a method of producing such forecasts. He admits that his theories—interesting, even if not the last word in long-range forecasting—are controversial and not widely accepted. He has made, however, some forecasts that would have made you financially better off had you used them as a basis for your trading.

Handler believes that volcanic action is the key to making forecasts for several months into the future. When volcanoes erupt, they shoot a mixture of materials into the air that subsequently form a "stratospheric aerosol"—droplets made up primarily of sulfuric acid and water that can hang in the stratosphere for years. After a few months the aerosol forms a belt around the earth roughly at the latitude at which the eruption took place. This belt filters the sunlight reaching the earth's surface, thus modifying the climate and affecting growing conditions.

In the early summer of 1983 Handler used his newly formulated aerosol theory to make several long-range forecasts. He predicted that the U.S. would suffer a corn-belt drought; that there would be no frost in Brazil; and that the U.S.S.R. would have a better crop than they had had in 1982. In fact, the U.S. suffered a record drought, with corn yields dropping significantly; there was no frost in Brazil; and the Soviet grain crop was up by 15 million metric tons. In 1984 Handler made eight forecasts, all of them available for six months or more before harvest. Seven of them were basically correct. He only missed when he suggested that the African cocoa crop would be down.

Handler's present technique allows him to modify his long-range forecasts to take into account shorter-term indicators, such as the position of the jet stream during the spring and early summer. He has found over the period from 1866 to 1984 a very strong correlation between the U.S. corn yield and the sea surface temperature of the eastern tropical Pacific Ocean, commonly called "El Niño."

Handler has prepared a set of forecasts for this year based on his indicators. He is estimating a corn crop in the 95-to-100-bushels-per-acre range; the U.S. soybean crop at 28 to 30 bushels per acre (the five-year averages for corn and beans in bushels per acre are 100.1 and 28.6, respectively); and a Soviet grain crop that will increase by 20 million to 25 million metric tons over 1984. Readers who believe that Handler's long-range forecasting could enhance their trading may follow his work by subscribing to *Atlas Forecasts* (217-344-5448).

This is the time of the year when it is appropriate to look at one of my favorite spreads—December wheat versus corn. This spread works a high percentage of the time because it takes advantage of the different harvest times of the two crops. Wheat is in the process of being harvested, causing supplies to be burdensome and prices depressed, while corn won't be harvested until fall. It will then be plentiful.

'Tis the season

The wheat versus corn spread usually is put on in late spring and removed in late fall. It's not exciting to watch, but has been a reliable moneymaker, showing profits in 9 of the last 12 years.

Year	Week ended June 3*	Week ended Nov 11*	Potential profit
1973	88.75	212.90	$ 6,287
1974	128.35	134.50	307
1975	77.95	95.40	872
1976	111.13	20.15	–4,529
1977	9.03	48.00	1,948
1978	69.50	130.63	3,056
1979	106.75	157.85	2,550
1980	140.75	145.95	260
1981	91.15	151.70	3,027
1982	104.63	99.10	–276
1983	89.76	(1.35)	–4,555
1984	75.62	87.80	609

*Price differences are in cents per bushel.

Given the strong reliability of this spread, I think it is worth a shot again this year. Try to buy December wheat/sell December corn with the wheat at less than a 75-cent premium to the corn. Then look for at least a 35-cent profit ($1,750 per spread) and risk no more than 15 cents ($750 per spread) from your entry point. If Handler's forecast turns out to be wrong and the corn belt shows signs of drought, prudent spreaders would exit this trade immediately. The margin on this position is $500, while the round-turn commission at a discount broker is about $50. ■

Stanley W. Angrist is a commodity speculator, consultant and longtime observer of the commodity markets.